

INVEST HEALTH

Strategies for Healthier Cities

A Project of the *Robert Wood Johnson Foundation*
and *Reinvestment Fund*



Lending 101

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Agenda

Loans and Lenders

Demystifying the vocabulary of lending

What is capital?

What do lenders review?





Money

Funds raised to support a particular project

- Debt – borrowed money that must be repaid
 - Senior debt might be Banks, CDFI, Bonds
 - Has “priority” in repayment – means that they are repaid first
 - Subordinate debt
 - Subordination agreement

What is Capital?

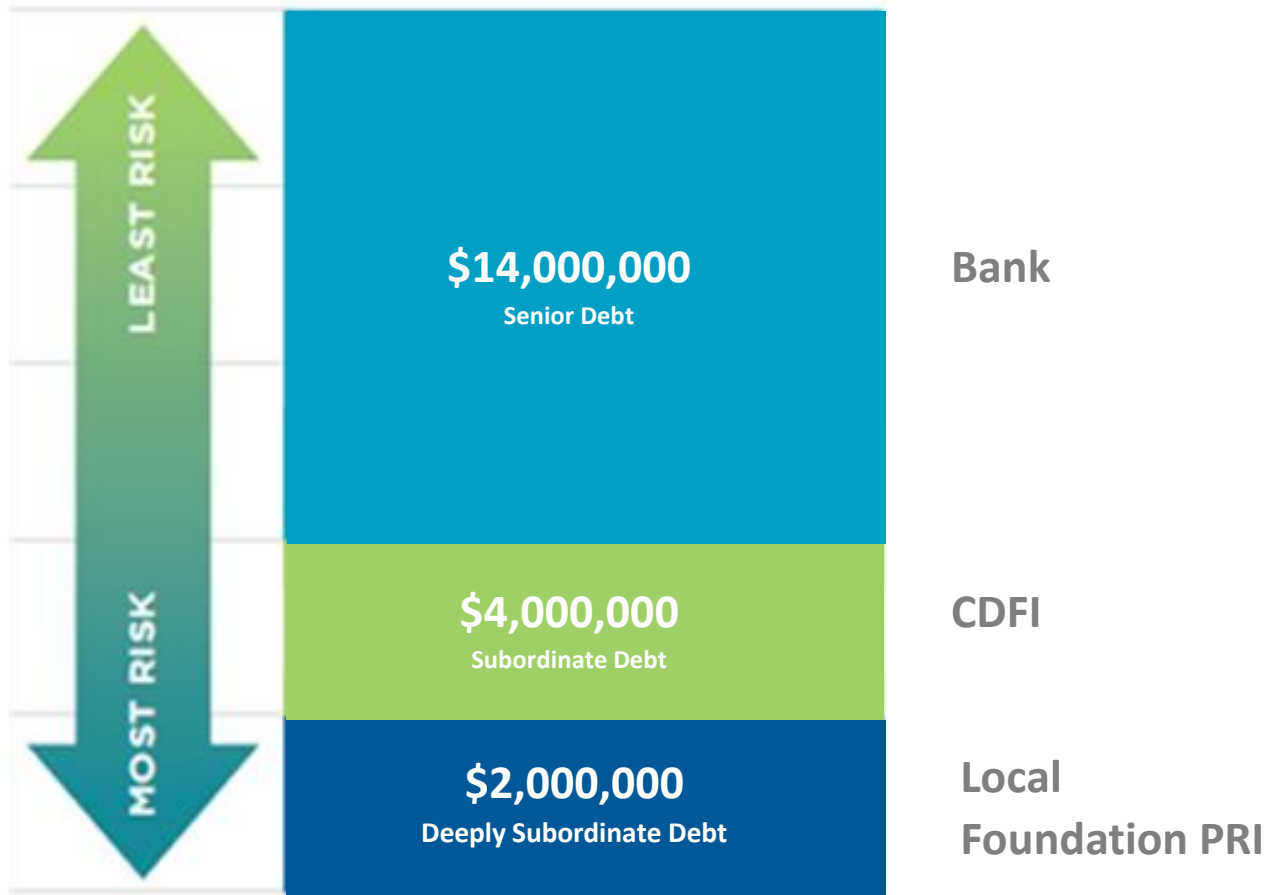


- Grants (“capital grants”)
- Subsidy
- Equity
 - Cash on hand
 - Cash raised through capital campaign
 - Cash raised through investors
 - Ex. Historic Tax Credits, New Market Tax Credits
 - Existing value

What is a Capital Stack?



The way that this capital is layered together, or combined, to fund a particular project.



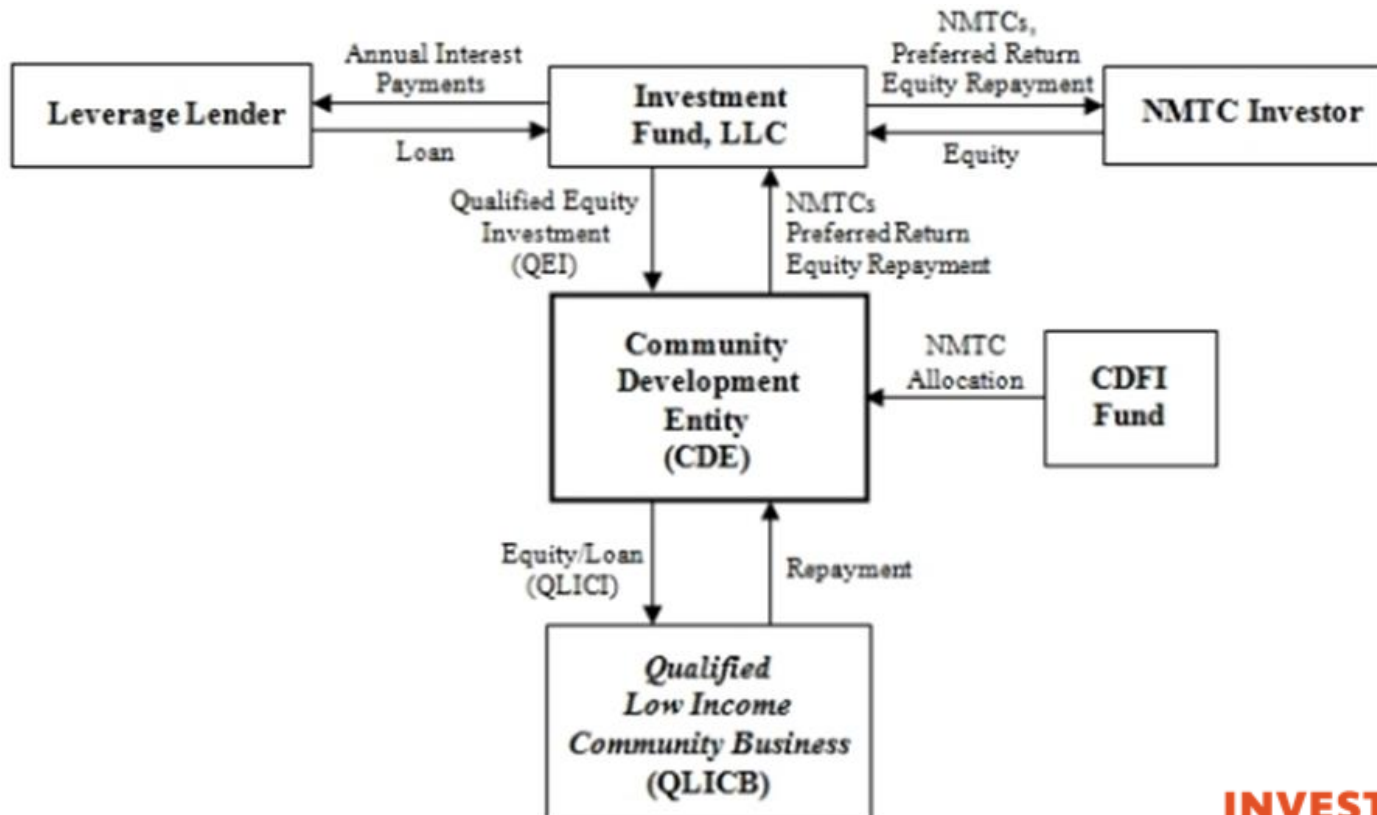
What is Capital Structure?



How the parties interact to finance a project.

A. Can be simple: **Borrower < > Lender**

B. Or complex:

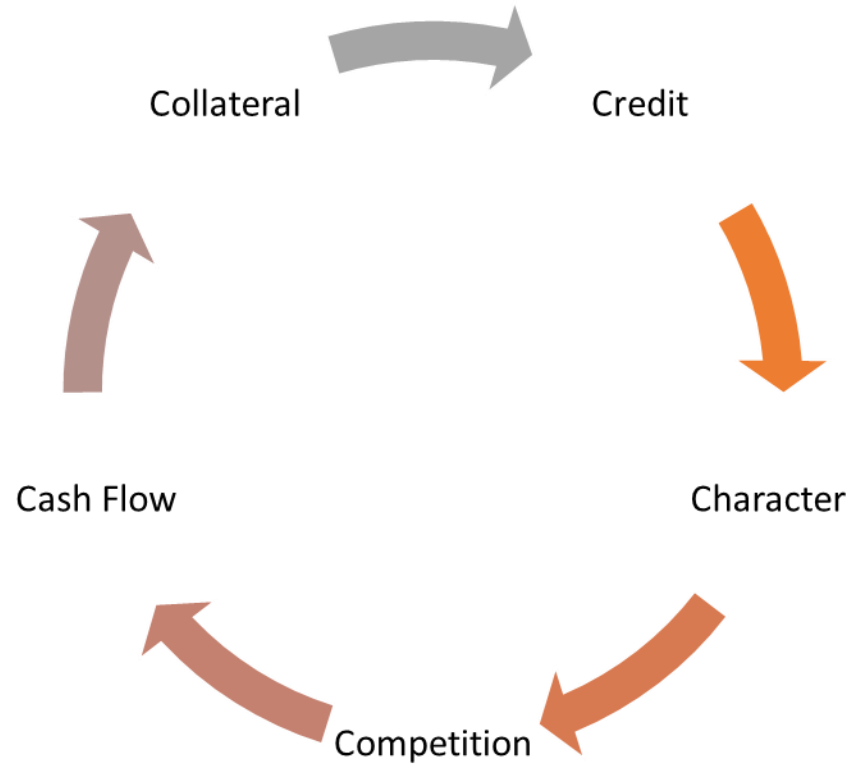




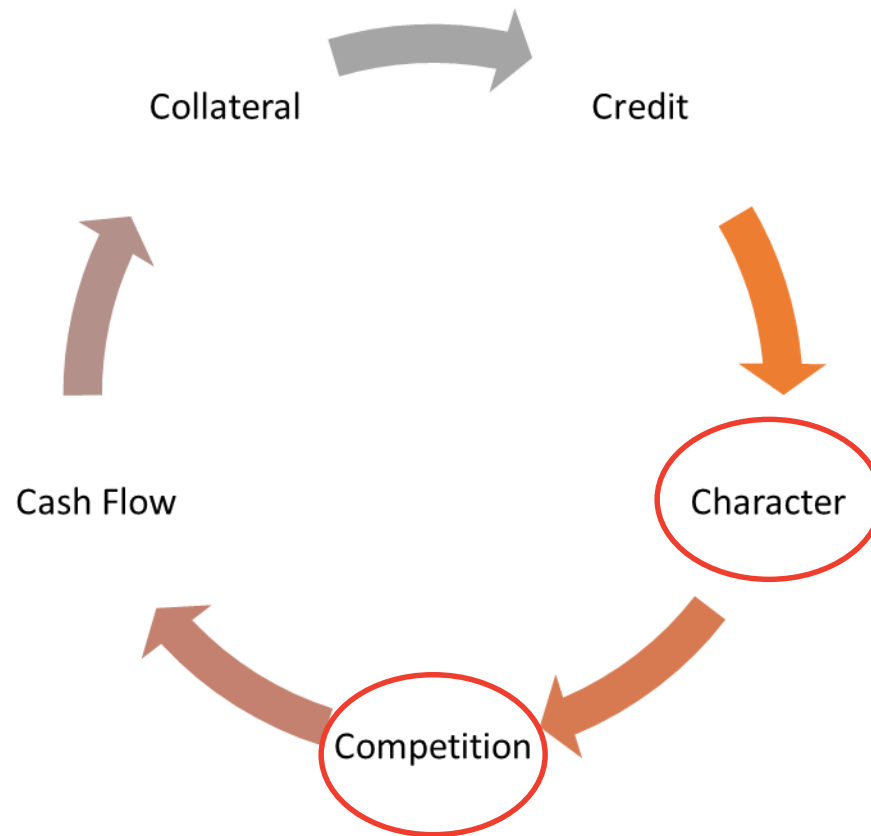
the analysis and research done by a lender to evaluate a prospective borrower and their project

- How much you can borrow depends on
 - How much you can repay
 - How much the project is worth
- Lenders assess RISK and look for **mitigants**

What are the 5 C's of Lending?

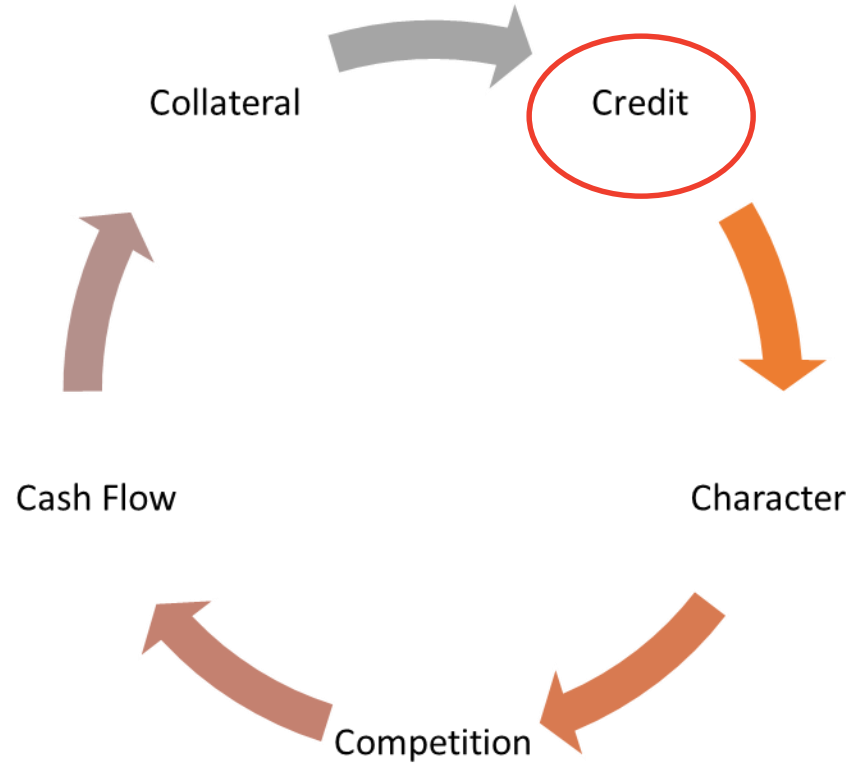


What are the 5 C's of Lending?



Character sometimes called “capacity”

What are the 5 C's of Lending?



What is Credit?



the ability to borrow

the amount that you can
borrow, particularly based
upon your past financial
track record



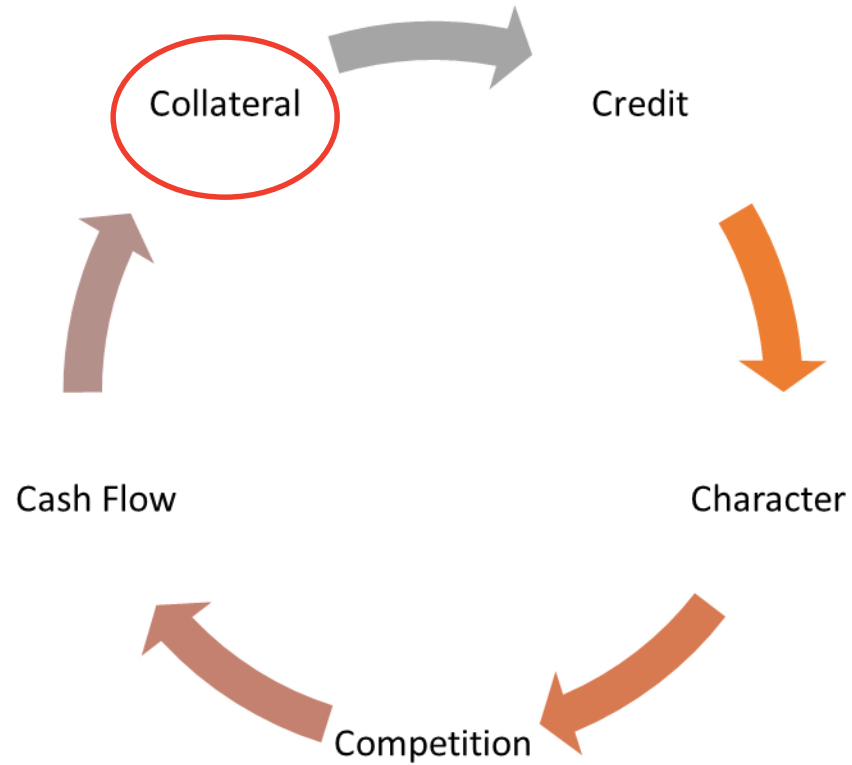
Loan Terminology



- Principal
- Interest
 - Interest rates – fixed vs. variable
 - Interest Reserve
- Debt service
- Amortization
- Term
 - Balloon



What are the 5 C's of Lending?



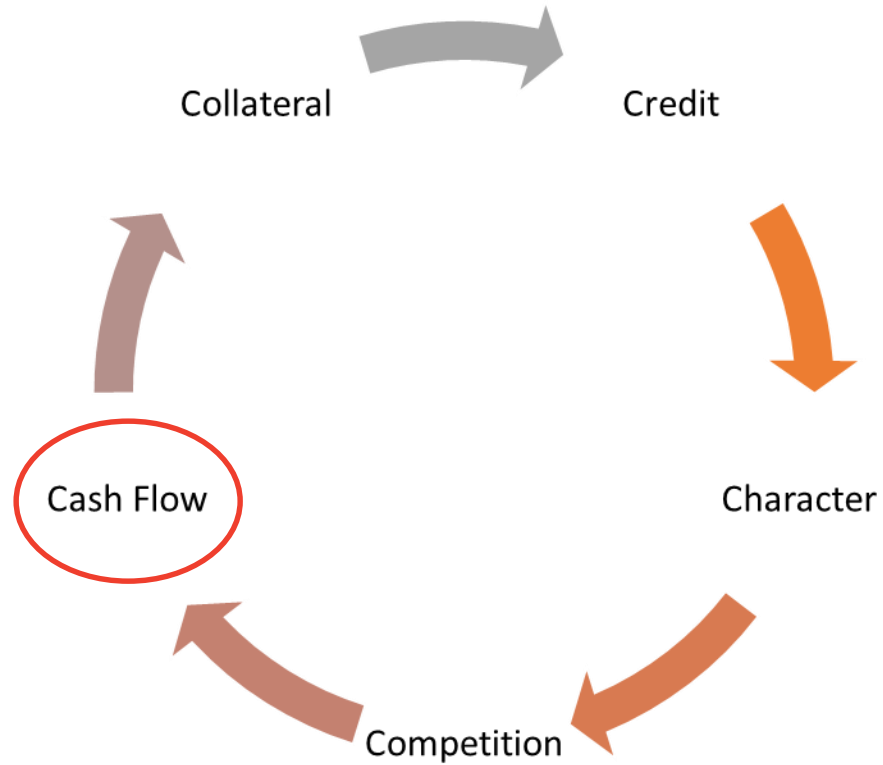


an asset offered to a lender to secure a loan

If borrower defaults, collateral can be sold to pay off the loan

- Security – *Property pledged to the creditor in case of a default on a loan*
- Security interest – *The lender's right to take property or a portion of property offered as security*
 - Ex. Mortgage – pledges real estate as security for loan
- Loan-to-value – constraint on the amount you can borrow
 - Appraisal
- Recourse (full recourse)

What are the 5 C's of Lending?



Budgets



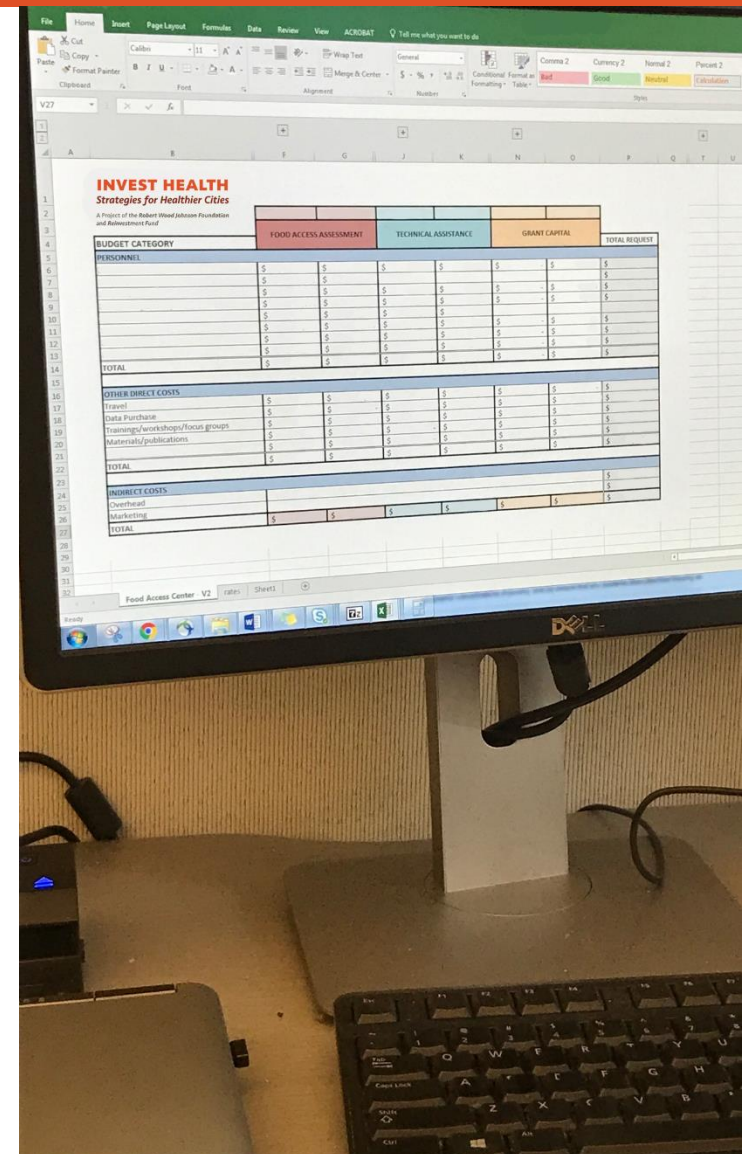
Operating Budget:

the estimated income and expense of an organization or business

Project Budget:

the “sources and uses” for a real estate project

These are not ongoing operating items and do not belong in the operating budget



Project Budget



Sources = capital stack

Uses include:

- Land and/or Building Acquisition
- Hard costs (construction)
- Soft costs (architect, permits, environmental)
- Contingencies (minimum 10% construction; 5% soft cost)
- Furniture, Fixtures & Equipment (“FF&E”)
- Closing costs & financing fees





Cash in-flows (revenue) and out-flows (expense)

- **Cash Flow:** The movement of cash into and out of the business.
- **Cash Flow Budget:** (Cash Budget) Shows timing of cash flows (cash received and cash paid out) for a specified period of time
- **Proforma:** multi-year cash flow projections which demonstrate how debt will be repaid over time.

What is Subsidy?

A way to lower the price of something

- Lower the interest rate
- Lower the cost of delivery a service

What is Credit Enhancement?



Any financial tool employed to reduce risk to third party investment, used to encourage or secure that investment.

- Grants, Subordinated Debt, Guarantees, or side collateral
- Organizations need credit enhancement when:
 - the organization has a limited repayment track record
 - there is uncertainty about whether the business/venture will generate sufficient revenue
 - there is appropriation or subsidy risk
 - to support a new investment area, program or approach
 - a program or project is otherwise too risky to gain investment

Loan Covenants

- Debt service coverage $> 1.2x$
- Days cash on hand > 30
- Liquidity (Current ratio) > 1.5
- Leverage < 3.5



Types of Loans



- Predevelopment
- Acquisition
- Construction
- Permanent
 - “Mini-perm”
- Leasehold improvement (“tenant improvement”)
- Bridge
- Working capital/line of credit



Costs of a Loan

- Origination/commitment fee
- Legal fees (borrower and lender)
- Third party costs (appraisals, environmental, financial certifications)
- Closing costs
- Reserves (interest, operating, sinking fund)
- Borrower's equity requirement
- Construction monitoring fees
- Late fees
- Prepayment penalties



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